

**SECTION 9**  
**FINANCIAL REPORTING**

ANNUAL FINANCIAL REPORT REQUIREMENTS .....	9.1
Meals Served .....	9.1
Suppers .....	9.1
Snacks .....	9.1
USE OF THE ANNUAL FINANCIAL REPORT .....	9.1
SEVERE NEED BREAKFAST .....	9.2
Eligibility .....	9.2
Reimbursement Rate .....	9.2
NET CASH RESOURCES .....	9.3
Monitoring Net Cash Resources .....	9.3
Computing Excess Cash .....	9.3
Eliminating Excess Cash .....	9.4
INDIRECT COSTS .....	9.4
Formula for Indirect Cost Rate .....	9.4
EXHIBITS	
Computing Per Meal Costs Instructions -Non -Public Schools .....	A
Computing Per Meal Costs Worksheet - Non - Public Schools .....	B
Net Cash Resources .....	C

## **ANNUAL FINANCIAL REPORT REQUIREMENTS**

Food service revenues and expenditures must be tracked and reported annually. Reporting requirements differ among public schools, charter schools, private schools, residential schools, Bureau of Indian Affairs (BIA) schools, and correctional institutions/state schools. See Exhibit A and B.

Non-Public agencies must submit their Annual Financial Report (AFR) by October 1. Reimbursement claims will be withheld if the AFR is not received by the due date.

### **Meals Served**

Enter the actual number of meals served (include Summer Food and Child and Adult Care Food Program meals) during the period from July 1 through June 30 for the following:

CHILDREN'S BREAKFAST & LUNCH

ADULT WORKER'S BREAKFAST & LUNCH (food service employees, cafeteria monitors, or maintenance personnel who receive free meals)

OTHER ADULT'S BREAKFAST & LUNCH (teachers, parents, & other school employees not working in the cafeteria & who do not receive their meals free)

SUPPERS

SNACKS / A LA CARTE / CATERING

### **Suppers**

Suppers must be tracked and reported on the AFR by juvenile correctional institutions and residential child care facilities. Suppers are not reimbursable, however, they are used in calculating per meal costs.

### **Snacks**

Residential Child Care Institutions (RCCIs) report the actual number of snacks served.

## **USE OF THE ANNUAL FINANCIAL REPORT**

The data that is submitted on the AFR is used by the CNP office for the following:

1. Each year the USDA determines State Matching Revenues required by the State of Arizona. Arizona does not have any state appropriations from the legislature for food service, therefore, the CNP office must determine what state funds are used for food service. A formula is applied to the public schools Maintenance and Operation and Capital Outlay funds used for the food service program.
2. The CNP office computes the per-meal cost for each sponsor by using the data submitted on the AFR. The per meal breakfast cost determines whether the sponsor qualifies for Severe Need Breakfast and the reimbursement a sponsor will receive. (See Severe Need Breakfast Eligibility Section).

3. USDA regulations state that net cash resources shall not exceed three months average expenditures for the nonprofit school food service. The AFR is used to determine Excess Cash by subtracting expenditures from revenues and then subtracting three times the average monthly expenditures from that total. (See Net Cash Resources Section)

## **SEVERE NEED BREAKFAST**

### Eligibility

Sponsors who have school sites eligible for Severe Need Breakfast Program receive a higher rate of reimbursement. The following criteria must be met to be eligible for the program:

1. A school site must serve forty percent (40%) or more free and reduced-price lunches in the second preceding year (two years earlier).

The forty percent (40%) criteria is computed on a school-by-school basis and not on district totals. Sponsors may apply for this program through the application renewal process. Include the total number of lunches by category (free, reduced-price and paid) that were served in the second preceding year on the site sheet portion of the application.

AND

2. The sponsor must have a per meal breakfast cost higher than the Regular Breakfast reimbursement rate for a free meal. The per meal breakfast cost is determined using data submitted on the AFR.

### Reimbursement Rate

Sponsors are encouraged to calculate their per-meal breakfast cost throughout the school year. Included in this manual is Computing Per Meal Cost Instructions and worksheet (Exhibits D and E). Sponsors are notified of their Severe Need Breakfast (SNB) rate in January after the AFR is processed and in July when rates change.

1. If the per meal breakfast cost is higher than the SNB reimbursement rate, the sponsor will be paid the reimbursement rate.

<u>EXAMPLE:</u>	Free SNB Rate	= \$1.37*
	Breakfast Cost	= \$1.39

The per-meal breakfast cost (\$1.39) is higher than the reimbursement rate, therefore, the sponsor will receive the reimbursement rate (\$1.37).

2. If the per meal breakfast cost is lower than the SNB reimbursement rate for a free meal, but higher than the Regular Breakfast reimbursement rate, the sponsor will be reimbursed the per meal breakfast cost.

<u>EXAMPLE:</u>	Free SNB Rate	= \$1.37*
	Free Regular Breakfast Rate	= \$1.15*
	Breakfast Cost	= \$1.20

The sponsor's cost (\$1.20) is lower than the SNB rate, but higher than the Regular Breakfast rate (\$1.15). The sponsor is reimbursed at the per-meal breakfast cost (\$1.20) for each free breakfast served.

3. If the per meal breakfast cost is lower than the Regular Breakfast reimbursement rate for a free meal, the sponsor is no longer eligible for the Severe Need Breakfast program. The sponsor will be placed on the Regular Breakfast program.

<u>EXAMPLE:</u>	Free SNB Rate	= \$1.37*
	Free Regular Breakfast Rate	= \$1.15*
	Breakfast Cost	= \$1.11

The sponsor would be placed on the Regular Breakfast rate because the per-meal breakfast cost (\$1.11) is lower than the Regular Breakfast reimbursement rate (\$1.15).

The reduced price breakfast reimbursement is determined by subtracting the price the school charges for a reduced price meal from the per-meal breakfast cost. The school is reimbursed at the lower of the cost or rate of a reduced breakfast meal.

\*Based on School Year 2001-2002 reimbursement rates.

## **NET CASH RESOURCES**

### Monitoring of Net Cash Resources

The CNP office recommends that sponsors track their net cash resources throughout the year to ensure that they do not exceed three months average expenditures for their nonprofit food service. Sponsors are notified in writing if they have an excess cash balance. The sponsor is then required to submit a corrective action plan that must be approved by the CNP office. After submission of the Corrective Action Plan, a net cash resources form (Exhibit F) must be submitted monthly until the excess cash is eliminated.

### Computing Excess Cash

The average monthly expenditure for one month is computed by dividing the total food service expenditures by the number of operating months. The total is then multiplied by three to determine the average expenditures for a three-month period. This total is then subtracted from the ending food service fund balance to determine excess cash.

### Eliminating Excess Cash

Excess cash can be used for nutrition education activities such as curriculum development, purchase of nutrition education materials and supplies, or in hiring a nutrition consultant to assist in planning an education project. Utilizing excess cash to support computerized nutritional analysis or improving food quality may emphasize nutrition integrity. Reducing meal prices or purchasing new equipment for the food service area may also be considered.

### **FOOD SERVICE FUNDS CANNOT BE USED TO PURCHASE LAND OR TO ERECT BUILDINGS.**

### **INDIRECT COSTS**

A public school participating in the NSLP can charge the food service funds (510) for indirect costs. This is a permissive procedure left to the discretion of the school district to implement if they so choose.

The non-restricted indirect cost rate is a percentage established annually by the Audit Section of the Department of Education for each calendar year. The school business office should know the non-restricted rate for the district. The percentage is determined using the formula from the school district's annual financial report.

The following formula should be used in applying the non-restricted indirect cost rate for school lunch programs receiving federal reimbursement. The formula can be calculated monthly, quarterly or annually. Expenditures for food are a direct cost of operating the food service program and may not be included in the base amount for computing indirect costs.

#### FORMULA FOR NON-RESTRICTED INDIRECT COST RATE

Add:	Expenditures for Fund 510
Deduct:	Expenditures for Food in Fund 510
Deduct:	Capital Outlay Expenditures in Fund 510
Deduct:	Indirect type expenditures directly charged to Fund 510 (example: a portion of utilities, maintenance, accounting clerk, and other indirect type expenses)
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Result:	Net Expenditures for Food Services for the specified period = A
	Federal Reimbursement for the specified period = B
Compare:	A and B above and determine the <u>lesser</u> amount = C
Multiply:	C times the approved Non - Restricted Rate = Indirect costs to be charged to Fund 510.

Indirect costs charged to Fund 510 must be deposited to the district's Fund 570. Expenditures from Fund 570 must comply with the U.S.F.R. Chart of Accounts



ARIZONA CHILD NUTRITION PROGRAMS  
SCHOOL LUNCH/BREAKFAST  
**COMPUTING PER MEAL COSTS INSTRUCTIONS**

**NON-PUBLIC SCHOOLS**

1. **CHILDREN AND ADULT WORKER BREAKFAST EQUIVALENTS** – The actual number of Children’s Breakfast and Adult worker Breakfasts served are added. The sum is then multiplied by .6 (1 breakfast + 6/10<sup>th</sup> of 1 lunch).
2. **OTHER ADULT BREAKFAST EQUIVALENTS** – The actual number of “Other” Adult Breakfasts served is multiplied by .6 (1 breakfast = 6/10ths of 1 lunch). The “Other” Adult Breakfasts must be separated from Adult “Worker” Breakfast. This is necessary for some further calculations in the formula.
3. **LUNCH EQUIVALENT MEALS** – For a total of lunch equivalent meals, add the number of Children’s Lunches served, Adult Worker Lunches served, Other Adult Lunches served, All Snacks/A La Carte, Children and Adult Worker Breakfast **Equivalents** (1), and other Adult Breakfast **Equivalents** (2).
4. **COST PER LUNCH EQUIVALENT** – Divide the Total Expenditures by the Lunch Equivalent Meals (3) to determine the “Cost Per Lunch Equivalent”. By computing the lunch equivalencies, the differences in program operations for breakfast have been compensated for.
5. **NUMBER OF INELIGIBLE MEALS** – total the number of ineligible meals by adding Other Adult Lunches served, Other Adult Breakfast Equivalents (2) and All Snacks/A La Carte.
6. **INELIGIBLE COSTS** – The number in Ineligible meals (5) times the cost Per Lunch Equivalent (4b) is the total of the ineligible costs.
7. **ELIGIBLE MEALS** – Total the **ACTUAL** number of eligible meals by adding Children’s Lunches served, Adult Worker Lunches served, **ACTUAL**: Children’s Breakfast served and Adult Worker Breakfasts served.
8. **PERCENT OF ELIGIBLE MEALS** – The total of the Eligible Meals (7) are divided by the Lunch Equivalent Meals (3) which result in a factor (percent) of eligible meals.

- 9. INDIRECT COST BASE** – The Indirect Cost Base is used to compute the allowable indirect cost. Food costs CANNOT be included because there are no indirect food costs. Add the Salaries, Benefits, Supplies (other than food), Utilities, Other Expenditures and Food Service Management Fees. The sum of the costs (9a) is multiplied by the Percent of Eligible Meals (8).
- 10. ALLOWABLE INDIRECT COSTS** – The Indirect Cost Base (9b) is multiplied times the Indirect Cost Rate (10%). The 10% Indirect Cost Rate was established by the Child Nutrition Program office for all non-public schools. Bureau of Indian Affairs schools may submit a request to the Child Nutrition office to use the Indirect Cost Rate established by the U.S. Department of the Interior.
- 11. ELIGIBLE COSTS** – From the total Expenditures subtract, any Ineligible Cost (6).
- 12. TOTAL ELIGIBLE COSTS** – The Allowable Indirect Costs (10) are added to the Eligible Costs (11) for a total of eligible costs.
- 13. LUNCH EQUIVALENT COSTS** – A portion of the total eligible costs must be allocated to children's lunches. This is done by:
- Multiplying the actual number of Children's Breakfast served times .6.
  - Add the ACTUAL number of Children's Lunches served and Children's Breakfast Equivalents (13) together.
  - Divide the number of Children's Lunches served by the sum of the Total Children's Breakfasts/Lunches (13b).
  - The Total Eligible Costs (12) is multiplied times the factor (13c).
- 14. TOTAL BREAKFAST COSTS** – To compute the total breakfast costs, the Total Lunch Equivalent Costs (13d) is subtracted from the Total eligible Costs (12).
- 15. PER MEAL BREAKFAST COST** – The Per Meal Breakfast cost is computed by dividing the Total Breakfast Costs (14) by the ACTUAL number of children's breakfasts served. THIS IS THE NUMBER USED TO DETERMINE ONE OF THE QUALIFICATIONS FOR THE SEVERE NEED BREAKFAST PROGRAM.
- 16. REDUCED PER MEAL BREAKFAST COST** – The Reduced-Price per meal breakfast cost is computed by subtracting the highest price charged for a reduced breakfast from the per meal breakfast cost.



**COMPUTING PER MEAL COSTS WORKSHEET**  
**NOT TO BE SUBMITTED TO THE STATE OFFICE**  
**NON-PUBLIC SCHOOLS**

**Exhibit B**

It is recommended that all sponsors track their per meal cost throughout the year. This worksheet is provided to assist in determining per meal cost.

**1. CHILDREN AND ADULT WORKER EQUIVALENTS**

Children's Breakfasts \_\_\_\_\_  
 Adult Worker Breakfasts \_\_\_\_\_  
 Total Children/  
 Worker Breakfasts \_\_\_\_\_ X .6 = \_\_\_\_\_  
 Children/Worker  
 Brkfst Equivalents (1)

Other Adult Lunches \_\_\_\_\_  
 All Suppers \_\_\_\_\_  
 Other Adult Breakfast  
 Equivalents (2) \_\_\_\_\_  
 All Snacks + \_\_\_\_\_ = \_\_\_\_\_  
 Ineligible meals (5)

**2. OTHER ADULT BREAKFAST EQUIVALENTS**

\_\_\_\_\_ X .6 = \_\_\_\_\_  
 Other Adult  
 Breakfasts Other Adult Brkfst  
 Equivalents (2)

**6. INELIGIBLE COSTS**

\_\_\_\_\_ X \_\_\_\_\_ = \_\_\_\_\_  
 Ineligible Meals (5) Cost Per Lunch  
 Equivalent (4) Ineligible Costs (6)

**3. LUNCH EQUIVALENT MEALS**

Children's Lunches \_\_\_\_\_  
 Adult Worker Lunches \_\_\_\_\_  
 Other Adult Lunches \_\_\_\_\_  
 All Suppers \_\_\_\_\_  
 Children/Wrkr Brkfst  
 Equivalents (1) \_\_\_\_\_  
 Other Adult Brkfst  
 Equivalents (2) \_\_\_\_\_  
 All Snacks + \_\_\_\_\_ = \_\_\_\_\_  
 Lunch Equv Meals (3)

**7. ELIGIBLE MEALS**

Children's Lunches \_\_\_\_\_  
 Adult Worker Lunches \_\_\_\_\_  
 Children's Breakfasts \_\_\_\_\_  
 Adult Worker Brkfst + \_\_\_\_\_ = \_\_\_\_\_  
 Eligible Meals (7)

**8. PERCENT OF ELIGIBLE MEALS**

\_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_  
 Eligible Meals (7) Lunch Equv  
 Meals (3) % of Eligible Meals (8)

**4. COST PER LUNCH EQUIVALENT**

\_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_  
 Total Expenditures Lunch Equv  
 Meals (3) Cost Per  
 Lunch Equv (4)

**5. NUMBER OF INELIGIBLE MEALS**

**9. INDIRECT COST BASE**

a. Salaries & Benefits \_\_\_\_\_  
 Supplies \_\_\_\_\_  
 (Other than food) \_\_\_\_\_  
 Other Expenditures \_\_\_\_\_  
 Food Management Fees + \_\_\_\_\_ + \_\_\_\_\_  
 Base costs (9a)

b. \_\_\_\_\_ X \_\_\_\_\_ = \_\_\_\_\_  
 Base Costs (9a) % of Eligible Indirect Cost  
 Meals (8) Base (9b)

### 10. ALLOWABLE INDIRECT COSTS

\_\_\_\_\_ X \_\_\_\_\_ = \_\_\_\_\_  
 Indirect Cost Indirect Cost Rate Allowable Indirect  
 Base (9b) 10% Cost (10)

### 11. ELIGIBLE COSTS

Total Expenditures \_\_\_\_\_  
 Ineligible costs - \_\_\_\_\_ = \_\_\_\_\_  
 Eligible Costs (11)

### 12. TOTAL ELIGIBLE COSTS

Allowable Indirect  
 Cost (10) \_\_\_\_\_  
 Eligible Costs (11) + \_\_\_\_\_ = \_\_\_\_\_  
 Total Eligible Costs (12)

### 13. LUNCH EQUIVALENT COSTS

a. \_\_\_\_\_ X \_\_\_\_\_  
 Children's Breakfasts Children's Breakfast  
 Equivalents (13a)

b. \_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_  
 Children's Brkfst Children's Total Children's  
 Equivalents (13a) Lunches Brkfst/Lunches (13b)

c. \_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_  
 Children's Lunches Total Children's Factor (13c)  
 Brkfst/Lunches (13b)

d. \_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_  
 Total Eligible Factor (13c) Lunch Equivalent  
 Costs (12) Costs (13d)

### 14. TOTAL BREAKFAST COSTS

Total Eligible Costs (12) \_\_\_\_\_  
 Lunch Equivalent  
 Costs (13d) - \_\_\_\_\_ = \_\_\_\_\_  
 Total Breakfast Costs (14)

### 15. PER MEAL BREAKFAST COST

\_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_  
 Total Breakfast Children's Free Per Meal  
 Cost (14) Breakfast Breakfast Cost (15)

### 16. REDUCED PER MEAL COST

\_\_\_\_\_ - \_\_\_\_\_ = \_\_\_\_\_  
 Free Per Meal Charge to Student Reduced Per Meal  
 Breakfast Cost (15) Breakfast Cost

